

## Message Text

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ACTION SS-30

INFO OCT-01 ISO-00 SSO-00 NSCE-00 /031 W

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O 062020Z AUG 74 ZFF-4

FM AMEMBASSY GEORGETOWN

TO SECSTATE WASHDC IMMEDIATE NIACT 0096

C O N F I D E N T I A L GEORGETOWN 1362

EXDIS

DEPARTMENT PASS OPIC

E.O. 11652: GDS

TAGS: EMIN, GY, PFOR

SUBJECT: REYNOLDS

1. SUMMARY. GUYANA TEAM HEADED BY MINMINES HUBERT O. JACK PRESENTED REVENUE DEMANDS AT OPENING SESSION WITH REYNOLDS THIS MORNING. NATIONALIZATION ISSUE NOT RAISED BY EITHER SIDE. JACK PRESSING FOR ANSWER AT MEETING SCHEDULED FOR 9 A.M. TOMORROW (AUGUST 7) AS TO WHETHER REYNOLDS PREPARED TO ENTER AGREEMENT BASICALLY ALONG LINES GOG PROPOSAL.

2. AS OUTLINED BY REYNOLDS TEAM, GOG REVENUE PROPOSAL CALLS FOR LEVY EQUAL TO 8 1/2 PERCENT OF AVERAGE NET U.S. REALIZED PRICE OF ALUMINUM INGOT. PROVISION WOULD BE MADE FOR GUYANA BAUXITE QUALITY DIFFERENTIAL, USING 3.39 TO ONE BAUXITE TO ALUMINUM CONVERSION VERSUS 4.3 TO ONE CONVERSION IN JAMAICA. (THESE CONVERSION FIGURES SEEM QUESTIONABLE TO OPIC REP. AND WILL BE CHECKED). JACK REFERRED TO POSSIBILITY OF FURTHER ADJUSTMENT FOR FREIGHT DIFFERENTIAL, BUT DID NOT ELABORATE. THE LEVY WOULD BE BASED ON A MINIMUM BAUXITE TONNAGE OF 950,000 LDT PER ANNUM, AND WOULD BE RETROACTIVE TO JANUARY 1, 1974. LEVY WOULD BE THE SAME FOR ALL PRODUCTION CATEGORIES, I.E., METAL GRADE, CHEMICAL GRADE, CALCINED.

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3. NEITHER SIDE RAISED MATTER OF NATIONALIZATION PLANS. JACK MADE IT CLEAR THAT GOG DOES NOT EXPECT EXTENDED REVENUE NEGOTIATIONS AND THAT IT IS ANXIOUS TO CATCH UP WITH JAMAICA, WHICH HAS ALREADY STARTED COLLECTING ITS HIGHER LEVIES. REYNOLDS TEAM WAS ASKED TO INDICATE AT SECOND MEETING WITH JACK WEDNESDAY MORNING, WHETHER MATTER COULD BE RESOLVED BY AGREEMENT ALONG GENERAL LINES GOZ PROPOSAL. ROBERTS ASKED WHETHER COUNTER-PROPOSAL WOULD BE CONSIDERED. JACK MADE CLEAR THAT ANSWER IS "NO" WITH RESPECT TO BASIC TAX LEVEL, BUT THAT TECHNICAL REFINEMENTS AND ADJUSTMENTS COULD BE CONSIDERED.

4. REYNOLDS APPARENTLY DIDN'T GO MUCH BEYOND LISTENING AND ASKING CLARIFYING QUESTIONS THIS MORNING. THEY PROPOSE TO ELABORATE ON THE ECONOMICS IMPLICATIONS OF THE GOG PROPOSAL AT A MEETING THIS AFTERNOON WHICH JACK WILL NOT BE ATTENDING. REYNOLDS REP. ROBERTS HAD NOT YET BEEN IN TOUCH WITH RICHMOND AND HAD LITTLE TO SAY CONCERNING THEIR INTENDED RESPONSE. THEY WILL REVIEW SITUATION WITH AMBASSADOR LATER TODAY.

5. REYNOLDS TEAM FIGURES BASIC LEVY WOULD WORK OUT TO US \$16.4 MILLION FOR 1974. COULD BE HIGHER IF NET REALIZATION IN SECOND-HALF CY 1974 EXCEEDS THE 34 CENT LEVEL. THEY FIGURE ACTUAL REALIZATION IN FIRST HALF CLOSER TO 30 CENTS. USING ACTUAL FIRST HALF COSTS AND SALES REVENUES, REYNOLDS SAYS THEY WOULD LOSE US \$11 PER TON ON CALCINED (TAKING 56,000 TONS RAW BAUXITE TO PRODUCE 31,000 TONS CALCINED) FOR WHICH AVERAGE SALE PRICE WAS ROUGHTLY US \$60 PER TON. FOR CHEMICAL GRADE THEY COMPUTE FIRST-HALF LOSS WITH NEW TAX AS US \$14 PER TON (CURRENT COSTS ARE US \$11 PER TON AND AVERAGE SALE PRICE \$14). TOTAL FIRST HALF LOSS ON CHEMICAL AND CALCINED COMPUTED BY REYNOLDS TEAM TO BE \$1.9 MILLION.

6. ASKED WHETHER SUBJECT OF APPLICABILITY OF NEW TAXES TO GUYBAU HAD BEEN RAISED, ROBERTS SAID IT HAD NOT BEEN RAISED DIRECTLY, BUT THAT GUYANA TEAM

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ROUTINELY REFERRED TO NEW LEVIES AS APPLICABLE TO INTEGRATED ALUMINUM COMPANIES- I.E., JUST REYNOLDS. WHEN QUESTION OF CREDIT OF NEW LEVIES AGAINST GUYANA INCOME TAX WAS RAISED, JACK SMILED AND SAID HE ASSUMED REYNOLDS GUYANA MINES WOULD NOT BE MAKING A PROFIT, SO QUESTION WAS ACADEMIC, BUT THAT GOG WILLING TO STRUCTURE LEVIES SO AS TO MAXIMIZE DEDUCTIBILITY FOR U.S. TAXES.

7. OPIC REP CAUTIONED ROBERTS AGAINST  
LETTING BREAK IN TALKS OCCUR WITHOUT REYNOLDS MAKING  
RECORD OF ITS BEING PREPARED TO NEGOTIATE REASONABLE  
INCREASES IN GOG REVENUES. SUGGESTION WAS ALSO  
MADE THAT REYNOLDS PURSUE ISSUE OF PARITY OF TAX  
TREATMENT BETWEEN REYNOLDS AND GUYBAU, AT LEAST  
INSOFAR AS THE COMPARABLE PORTIONS OF THEIR  
BUSINESS INVOLVING SALES TO THIRD PARTIES.  
THE TWO OPERATE UNDER THE SAME TAX STRUCTURE NOW.  
NOT ONLY IS THERE POTENTIAL LEGAL ISSUE OF DISCRIMINATION,  
BUT THIS ASPECT MIGHT DRAMATISE LIMITS ON ABILITY  
TO PASS ON NEW REVENUE MEASURE TO CONSUMERS.

8. AMBASSADOR HAS REQUESTED APPOINTMENTS WITH  
PRIME MINISTER AND FOREIGN MINISTER. PM'S OFFICE  
ADVISES NO MEETING POSSIBLE TODAY. MEETING WITH FORN MIN THIS  
EVENING. BELIEVE IT SHOULD BE POSSIBLE FOR REYNOLDS TO  
DELAY DEFINITIVE RESPONSE IN ITS MEETING UNTIL USG HAS A CHANCE  
TO CONVEY MESSAGE IN STRONG TERMS TO GOG THAT CONFISCATORY  
TAXATION CAN TRIGGER OPIC INSURANCE AND WOULD BE TREATED SAME  
AS OUTRIGHT NATIONALIZATION IN TERMS USG RESPONSE. KREBS

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## Message Attributes

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